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October 21, 2002

California Energy Commission
1516 9th Street
Sacramento, CA 95814

Re: Integrated Energy Policy Report

The following set of comments and suggestions are in response to the CEC staff proposal, dated October 9, 2002, of the scope of the "Integrated Energy Policy Report".

Trends and Outlooks

We feel that it is of general importance, in this section, for staff to examine a future in which natural gas supplies are scarce, necessitating the use of expensive and unconventional natural gas sources.

Electricity and Natural Gas Demand Trends and Outlook

In this section, staff suggests that two scenarios be examined to determine whether demand for natural gas is impacted by energy prices and the economy. One scenario assumes a strong economic recovery, low gas prices, and declining demand-side management (DSM). The other assumes a slow recovery, high gas prices, and high DSM.

It appears as though the two scenarios were selected based on the assumption that the state of the economy is the primary factor in determining gas price. A report released this spring by the Center for Energy Efficiency and Renewable Technologies (CEERT) shows, based on energy resource data and industry insider assessments, the price of natural gas will likely rise, quite apart from the state of the economy. This report, "Risky Diet: North America's Growing Appetite for Natural Gas", reveals that conventional supplies of natural gas are growing scarce and the gas resources that will have to be exploited in the future to meet gas demand will be more difficult and expensive, thus driving up gas prices. Therefore, we suggest that the CEC staff analysis include a scenario that assumes a strong economic recovery, high gas prices and declining demand-side management (DSM).

Electricity, Natural Gas, Renewable Resource and Efficiency Supply Trends and Outlook

In this section, we suggest that staff also examine the key uncertainties associated with future imported and unconventional sources for natural gas. CEERT's report, mentioned earlier, projects a future of dependence on more expensive sources – liquefied natural gas (LNG) imports and unconventional plays, such as tight sands, coal bed and gas shales.

Staff also proposes to report on the progress of renewable development in California. Noting that the CEC intends to detail implementation of its Renewable Energy Program (REP) in other legislatively mandated reports, we would like to suggest that staff consider the policy of providing REP benefits to all sellers of renewable energy.

Transportation Fuels and Infrastructure Trends and Outlook

CEC staff proposes, in this section, the structure for its 20-year forecast of transportation energy supply and demand. We note that there are many experts in the energy field who project that global oil production will peak in the next 1-2 decades. This could have a catastrophic impact on California, particularly if the likelihood goes unexamined. We suggest that staff look into such projections in this section. In particular, staff should: 1) evaluate the assumptions underlying these peaking production forecasts, 2) identify the potential impacts for California, 3) formulate strategies to minimize these impacts and 2) identify strategies upon comparison of the probability of detrimental impacts and costs and benefits of mitigation.

Potential Issues

Consistent with the direction of SB 1389, we underscore the need for the CEC staff take care to examine all potential public health and environmental impacts of natural gas and petroleum importation and refining, transmission and supply issues. The potential public health and environmental impacts of alternatives to natural gas and petroleum should also be examined.

Issue 1: Infrastructure and Constraint Implications

In analyzing needed transmission upgrades, we request that CEC staff examine existing transmission conditions for renewables and future demand for transmission for renewables. This is especially appropriate given the increase in renewable development that will occur as a result of the state's new renewable portfolio standard (RPS). We also ask the staff to examine the potential of the new RPS to offset the power generated from older, dirtier, fossil-fueled facilities, and allow for the orderly retirement of these plants.

In its analysis of fuel infrastructure and constraint implications affecting transportation, it is important that the CEC recognize the state's longstanding commitment to protecting and improving air quality. Any analysis should be bounded by this commitment.

Issue 2: Adequacy, Reliability, and Risk

We urge the careful consideration of public health and environmental implications of attempting to ensure a more reliable energy service and supply for California. Potential strategies for improving reliability, such as increasing peak power resources and distributed generation policies, should focus on those technologies that would have either a beneficial or at least neutral effect on public health and the environment.

Issue 3: Prices, Volatility, and Consumer Response

In this section, we would like to suggest an altered focus for two of the issues staff has identified for examination. First, staff proposes to examine the operational and infrastructure aspects that inhibit demand for alternatively powered vehicles. We recommend that the question be restructured to also look at what operational and infrastructure improvements are needed to make clean, alternative vehicles more viable and accessible to the public. Similarly, we also recommend that the question directed at determining the proper role of such vehicles in California's market be expanded to address appropriate strategies for increasing the purchase and use of clean vehicles.

Issue 4: State and Global Environment

The emission reduction credits and credit trading structures have been the subject of some concern in recent years that they are not designed to yield the greatest air quality and public health benefits. Because of this concern, we urge that, in examining the future use of these credits to site new power plants, CEC staff also consider how the credit system can be improved to address the state's growing air quality problem.

Given California's precarious water supply, we suggest that staff include in its list of environmental examinations the impact of the state's current and projected energy infrastructure on water supplies and what adjustments can be made to minimize this impact. We would also like to see the staff display parity when examining environmental impacts from different generation technologies. For example, in addition to calculating the air emission impacts from thermal units, calculate also the impact of hydropower and coastal units on the surrounding environment and water systems, as well as calculating the full environmental cost of the state's energy imports and nuclear energy production.

On behalf of the Center for Energy Efficiency and Renewable Technologies (CEERT), Environmental Defense, Sierra Club, and the California Public Interest Research Group (CalPIRG), we respectfully submit these comments. We hope to be active and helpful in this process going forward.

Sincerely,

V. John White
CEERT

Richard Ferguson
Sierra Club

Dan Jacobson
CalPIRG

Nancy Ryan
Environmental Defense